

# Vince Cable

## Housing Speech

Delivered to RIBA. Vince Cable explores how we can end the housing crisis through pragmatic steps to create more affordable homes, protect those who are renting and help people get on the property ladder.

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At the centre of the last budget was a pledge to build 300,000 UK houses a year to address the 'housing crisis'.

We were taken back to the days when a post-war Conservative Government, under Churchill, was elected with this level of ambition, and more than succeeded.

Or to the interwar National Government when, under the much-maligned Neville Chamberlain, when there was a similar level of ambition and achievement in the aftermath of, and as an antidote to, the Great Crash.

More recently, in 1969, when I was embarking on a political career as a councillor in Glasgow, a record level of 378,000 homes were built. Large scale house building was then the template of successful local government.

Today, there is a significantly larger number of people per home available.

Yet in the 2010 post-crisis nadir only 133,000 homes were built during the year. And even as the economy comes out the other side, there were just 178,360 in 2016/17.

Brexit now threatens development rates again.

Already two-thirds of small and medium sized construction firms are struggling to hire bricklayers and carpenters, 10% more than was the case even three months ago. There is a worsening crisis in construction recruitment which threatens any political aspiration to build more homes.

An estimated 240,000 to 300,000 units per year are needed to keep up with the rate of household formation but even that figure excludes a lot of hidden demand – in the form of young people living with their parents, for example.

This historic failure of governments – of all stripes – to stimulate housing supply at anything like the levels needed to meet demand is at the root of a great deal of social, and particularly intergenerational, injustice in the country today.

So while some of the solutions are necessarily technical, we should keep in mind throughout the end game. An affordable, secure home for all – and in particular for young people, to whom it is presently out of reach.

I want to set out how we could return to the levels of house building last seen two or three generations ago; and how a Lib Dem, mixed-economy approach, of public and private sector, can deliver it.

Of course, aggregate housing numbers and the whole idea of a ‘housing crisis’ necessarily obscure great complexity and different experiences.

At one extreme are individuals with serious mental health problems and other needs, sleeping rough on the streets or ‘sofa surfing’, and tens of thousands of homeless families trapped in unsuitable ‘temporary’ accommodation.

At the other, are millions of mainly young people who despite being in good jobs struggle to pay the deposits or rents required for satisfactory rented accommodation or to afford home ownership.

There are some compelling reasons why we talk about a ‘housing crisis’.

- A severe decline in affordability. The ratio of house prices to gross average earnings per head is at record levels of around 10 to 1, double the level of the mid-1990s.
- On the official definition of “affordability” only 20% of new homes are affordable. Even these are out of reach to many.
- Housing costs (rent and mortgage payments) have risen by over 20% in the last decade for the poorest half of the population but have fallen for the richest third (and by 17% for the top decile); thanks to cheap mortgages.
- Owner occupation has gone down over the last three decades from 64% to 38% amongst 25 to 35 year olds; and from 35% to under 10% amongst 16 to 24 year olds.
- Younger people in particular have been pushed into the private rented sector where, for under 45s, average usable floor space has fallen from 38 sq metres in 1996 to 32 sq metres in 2014/5. And a third of homes in the sector fail to meet the Decent Homes Standard.

At the same time, there is more under-occupation. It has grown 25% in a decade. 7 million owner occupiers have 2 spare bedrooms and 25 million have one spare room.

Official homelessness is at record levels (80,000 in temporary accommodation) and this excludes those, mainly single, young people, who have not been counted.

Government subsidies for rent through housing benefit have tripled over a decade to around £25bn pa (£10bn to private landlords) while subsidies to increase supply (of social

housing) have fallen to around £1bn pa.

These problems are well-rehearsed and much lamented but there is little recognition that radical change will be necessary if the crisis in housing is to be addressed in our lifetime.

## **What Has Gone Wrong?**

Essentially there are four big, interconnected, issues.

First, the market in land does not work properly resulting in unearned rewards for hoarding and restricting supply. The planning system is compounding these problems.

Second, the stability of the banking system is inextricably and increasingly bound up with cycles in the residential property market.

Third, much harm has been done by ideological dogmas about the respective roles of private versus social ownership and about the role of market intervention.

Fourth, the dysfunction in the housing market is both a cause and effect of wealth inequality. Each of these is difficult to deal with and the interactions between them more so. Let me say something about each of them.

On the first, the pressure of growing numbers of people and households, and economic activity, on a fixed supply of land will inevitably generate rewards – rent – for landowners through higher land prices.

Planning restrictions which reflect society's preferences for land use further restrict the supply available for homes. In the UK, the result of scarcity combined with planning is - often enormous – untaxed differentials between the value of land for housing use and for alternative (such as agricultural) use.

A consequence of the land market is that the price of housing is predominantly determined by the price of land which, in many parts of the country, makes new housing unaffordable for the majority of first time buyers.

Developers often seek very high returns – typically 20% return on capital - because of the risks inherent in an investment whose return relies on the slow, unpredictable process of planning permission.

They also make use of strategic land banks which cushion risk and strengthen their balance sheets if values are rising. They have little incentive to prioritise quality and every incentive to minimise competition.

It is easy to demonise Persimmon or Berkeley Homes who dominate this market but they are acting entirely rationally within the incentives offered by what is a lousy system.

To address one of the core problems, I have asked the businessman Andrew Dixon to prepare a report on how land value taxation could be used in a practical and effective way to deal with issues around developments and planning gain.

Until the model is radically changed politicians will continue to promise far more than the available land can deliver.

There is also a dangerous and damaging link to the second big, structural problem: the banking system.

Banks (backed by a myopic regulator) are encouraged to fuel demand for housing. Mortgage debt has increased eight-fold in real terms over the last 40 years and accounts for one half of the banks' loan book. The banks have to set aside almost eight times more capital to cushion themselves against risk when they lend to builders than they do when they lend to home-buyers.

It is extraordinary that it is so much easier for a house purchaser to obtain a loan to buy a house than for a small builder to build one.

Lack of credit helps to explain why only 30% of new build projects up to 500 units are delivered by small companies today, whereas the figure was over 50% before the financial crisis. This leaves the industry in the hands of big developers, who share with the banks a strong vested interest in rising house prices and perpetuating scarcity. The bias is then reinforced by damaging and misconceived taxpayer subsidies boosting housing demand while doing nothing about supply.

The Institute of Directors understandably said of Help to Buy, for example, that 'the world must have gone mad' and the Daily Mail that there was 'the makings of a sub-prime disaster'. A powerful coalition of developers, banks and existing home owners has a strong self interest in perpetuating this madness.

The third main problem I have outlined is ideological dogma. A 'public' – or in this case 'council' – bad; private – good mentality has determined not just the number of homes built, but the balance of tenure too.

Social housing has contracted from over 200,000 a year at its peak to the pitiful level of just 1,409 social home starts in 2017/18. Meanwhile, over 1.5m publicly owned homes have been sold off thanks to the 'right to buy'. Contrary to assurances, only 1 in 5 of the homes have ever been replaced in the public sector.

Moreover, many of the privatised homes have not remained in owner occupation, as was intended, but around 40% have been used for buy-to-let purposes. And since better-off tenants were, in general, those best able to exercise the 'right to buy', social housing is no longer socially mixed but almost exclusively for the most disadvantaged.

And this latter point reinforces the fourth and final of my main arguments: that the current housing market and housing policies both reflect and reinforce inequalities.

Rising house prices are good news for property owners, especially large property owners, enhancing their wealth, and they exclude those lower down the income scale from ownership which, in turn, reinforces inequality.

Housing costs – mainly rent – are rising for those on low earnings but falling for high earners. 'Right-to-buy' and 'Help-to-buy' both use public money to help relatively well-off house purchasers and, in turn, restrict access to low cost housing for those unable to get on the housing ladder.

### **So, what is to be done?**

There is no single solution. A 'one size' model doesn't fit all. There is, of course, a role for the current developer model but it is to supply the high-end market for owner occupation or rent. It is an important and valuable role. Executive housing matters.

But, we should not pretend it is a suitable vehicle for providing the programme of large-scale affordable housing, which this country – and its youngest citizens in particular – needs

desperately, and needs quickly.

We should recognise the role of the private sector in providing the housing which it is within its interests to provide, and then broaden the definition of social housing to include everything from traditional social homes for rent (and we need many more of those), through to a new form of “rent to buy” which enables young people to get on the housing ladder without a deposit.

### ***Social Rented Housing***

Of the 300,000 new homes a year, at least 50,000 should be social rented housing, rising to 100,000 a year as soon as we can. Our ambition should be to build 500,000 homes a year in total within the next few years. This involves removing the cap on local authority borrowing, use of the stronger CPO powers, and providing capital subsidy to housing associations to build and removing the affordable housing exemption for small developments.

Meanwhile, there is growing consensus that the present viability system is weighted in favour of the applicant and leads to inflated land prices being paid at the expense of infrastructure, affordable housing and design quality. Fundamentally, the planning system has become about haggling and gatekeeping, rather than about creating places in which people can live, work and play.

So viability assessments must be reformed to keep companies to their promises, and in return government must commit to an increased social housing grant to ensure a fair margin. But reform to the cross-subsidy model of private developments funding social or affordable housing will not be sufficient. There will still be a need for an additional supply route for first time buyers of modest means who cannot afford to buy through the open market, nor to rent in perpetuity from private landlords.

### ***A Proposal for Genuinely Affordable Housing***

What is required is a dedicated, arm's length, agency – non government and non profit – to take a key role in acquiring land at low cost at current use value. The new body – let us call it the British Housing Company – would be empowered by law to acquire land of low amenity and market value through compulsory acquisition.

The aim would be to acquire sites at a price as low as 40% of land acquired in the open market without paying the ‘hope value’ which attaches to those sites currently earmarked as having development potential.

With the land acquired cheaply this public company would provide, initially, five year rentals which could be converted into freehold acquisitions with a mortgage.

In due course the owners would sell into a pool, retaining any housing market inflation but not the discount to market value which would be recycled to provide affordable housing for the next generation of occupants. The model is one which would be attractive to long term investors without government subsidy or underwriting.

To make this work well, there should be amendments to the 1961 Land Compensation Act, permitting the use of CPOs in these strategic developments. By eliminating the 60% or more of homes absorbed in prohibitive land costs and developers' profits it also becomes easier to ensure that homes are of adequate quality, safety and insulation standards.

In addition to the British Housing Company model, Liberal Democrats propose a big expansion in 'rent to own'. Here, housing associations build properties as they would for social rent, affordable rent and shared ownership. But instead occupiers of these properties would pay a market level rent. The additional margin would yield the occupier an increasing stake in the property over time, just like a mortgage – approximately 10% after five years, and 20% after ten years.

Variants of this model are already in use in Liberal Democrat controlled local authorities like Eastleigh, and these just show the capacity of local government – even now – to step up to the plate and tackle housing affordability head-on. New housing  
Where would the houses be built? Beyond the low value sites a British Housing Company might develop, there are plenty of additional ideas on how to create planned communities with supporting infrastructure whether in an updated form of new towns or 'garden villages'. An emotional issue is the Green Belt. The philosophy of preventing urban sprawl is a good one.

Liberal Democrat campaigners all over the country have campaigned to ensure real green space – some of it green belt, some of it metropolitan open land – is protected where it provides real beauty and utility to the community.

But to improve housing supply, we must be flexible and pragmatic not ideological and dogmatic.

There are some parts of the Green Belt, for example, which have disused petrol stations or abandoned warehouses on them or places which – being immediately next to busy motorways – could hardly be called areas of beauty and tranquillity. Nobody who is serious about resolving the housing crisis would argue that such sites should be off limits.

What is needed is serious neighbourhood planning, ensuring communities and their councils have a real say in the process. This should include greater powers for local authorities to 'swap' sites of low environmental value in order to protect the real green – and blue water – space everyone values, whether between towns or within urban areas.

### ***Existing stock***

Even as we build more homes, millions will continue to live in the existing stock of social housing, privately rented property, and owneroccupied property, many of them faced with poor conditions, unaffordable rents and instability. And most transactions are of the existing stock. Beyond building more homes, other action is necessary:

Raising quality, safety and environmental standards in the existing stock. Liberal Democrats have detailed plans for a zero carbon Britain by 2050, and the existing – as well as new – housing stock is at the heart of it.

One year on from the Grenfell Tower Fire and that tragic loss of life, residents in high rise buildings across the UK are starkly aware of the often-precarious conditions they are living in. When the current Inquiry concludes, it should lead to safety upgrades for high-rise blocks which the government and council, under some yet-to-be-agreed formula, will have to pay for.

In addition, roughly four million homes of all tenures will need insulation retrofit which the Coalition's Green Deal was trying to address, but which was neutered by the Treasury. We need an end to exploitative, greedy, negligent or neglectful practices in the private sector, which give the majority of good landlords a bad name.

Lib Dems support mandatory licensing with a publicly available database of rogue landlords; promoting longer private tenancies with inflation or wage-linked rents; promoting a 'right to buy' – right of first refusal – for sitting tenants when a landlord sells; capping upfront deposits; and banning letting agencies' fees for tenants.

For many young people of Generation Rent, a key issue is the high upfront cost of renting and assembling a deposit. The Lib Dems are advocating for loans of up to £2,000 to assist with this.

The sanctions for leaving homes empty should be strengthened, with fiscal measures to incentivise domestic use. We could, for example, increase the trivial 200% council tax on homes deliberately left empty to 500%.

For overseas residents a levy as a proportion of the property value, or an extra stamp duty surcharge, should be introduced. Conversely, a proper look at how the tax system could incentivise downsizing for (mostly older) property owners is overdue.

The most visible and emotionally affecting aspect of the housing crisis is homelessness, and especially street sleeping.

While anything which pushes rents down rather than up will help, in practice the main remedies to street sleeping do not lie in housing policy, but in benefits policy – in particular by eliminating the time lapse in awarding universal credit and increasing local Housing Allowance; In focus on mental health in the NHS; and through proper resourcing and support to hostels, where the Housing First model has shown to be effective.

## **Conclusion**

The government has made a big increase in housing supply one of the key tests of its period in office. Yet as on so many things, Ministers wishing the end is of little use if they are unprepared to invest in the means – which I have set out today.

Some cosy assumptions from the past have to be dropped:

That it is possible to build affordable housing within the present framework of land acquisition; - that the banks can continue in their current model; - that planning law can continue to let big developers out of their obligations, and that developers themselves are the exclusive key to building the homes Britain needs.

The Government must get involved, and there is no time to lose. ■